

THE GEORGE WASHINGTON UNIVERSITY
SCHOOL OF GOVERNMENT
U. S. NAVY GRADUATE COMPTROLLERSHIP COURSE

SIGNIFICANT ASPECTS OF WORKING-CAPITAL FUNDS IN THE NAVY

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JANUARY 1956

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PREFACE

In studying the development of the Comptroller function in the Department of the Navy, the writer reviewed the congressional hearings leading up to as well as the federal statute concerning working-capital funds contained in Title IV of the National Security Act Amendments of 1949, Public Law 216. Section 405 of the above cited statute sets forth the statutory authority and definition of working-capital funds as they are known today. As the operations of the Navy Stock Fund were somewhat familiar to the writer, Section 405 aroused curiosity with reference to the background, accomplishments, and potential of working-capital funds in the Navy. This paper of inquiry resulted from that curiosity and has as its purpose the determination of answers to the following questions concerning working-capital funds: What had been the Navy's experience prior to the 1949 law? What progress has been made from the time of passage of the law in 1949 to 1955? Where is the Navy headed with respect to working-capital funds?

The information contained in the presentation was by and large obtained in conversation with or in references provided by representatives of the Office of the Navy Comptroller, the Bureau of Supplies and Accounts, the Bureau of Ships, and the Bureau of Aeronautics. The wholehearted cooperation of representatives of the above cited agencies is hereby gratefully acknowledged.

TABLE OF CONTENTS

	Page
PREFACE	ii
Chapter	
I. INTRODUCTION	1
General	
Unification and Its Implications	
The Approach Pattern for Subsequent Chapters	
II. ATTITUDES AND ACTIONS OF CONGRESS AND THE DEPARTMENT OF DEFENSE 1947-1955	5
General	
MATS and MSTs	
1949 Hoover Commission Report and Recommendations	
1949 Amendments to the Unification Act	
Congressional Hearings and the O'Mahoney Amendment	
Reorganization Plan Number Six	
III. SPECIFIC ACTIONS AND PROGRAMS IN DEFENSE	14
General and Policy	
1949 Memo and 1951 Restatement	
1952 Policy Directive and Congressional Reaction	
1953 Policy Guidance by Assistant Secretary of Defense (S&L)	
Uniform Cataloging	
Public Law 432	
Accomplishment and Outlook	
Single Service or Joint Procurement Assignments	
General	
ASPPA	
ASMDPA	
ASTPA	
Interservice Supply Support	

LIST OF TABLES

Table		Page
1.	Navy Stock Fund, Comparative Statement of Assets, 1951 to 1955	14
2.	Navy Stock Fund, Inventory Balances	15
3.	Navy Industrial Fund Activities as of 1 December 1955	20
4.	Projected Conversions to Navy Industrial Fund FY 1956 or later	28

CHAPTER I

HISTORICAL BACKGROUND

Working-capital funds have been defined as:

Revolving funds (working-capital funds) are those which finance a cycle of operations in which the expenditures generate receipts which are available for continuing use....¹

Section 405 of the National Security Act Amendments of 1949, Public Law 216, describes working-capital funds in terms of purpose:

...the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of:

- (1) financing inventories of such stores, supplies, materials, and equipment as he may designate; and
- (2) providing working capital for such industrial-type activities, and for such commercial-type activities as provide common services within or among the departments and agencies of the Department of Defense as he may designate....²

In checking the historical development of working-capital funds in the Navy prior to the National Security Act Amendments of 1949, it was found that the Navy possessed a wealth of experience with revolving stock funds but had no experience with working-capital funds as such (Navy Industrial Fund) for the financing of industrial activities or commercial-type activities providing common services.

¹Task Force Report of Commission on Organization of the Executive Branch of the Government, Budget and Accounting (Washington: Government Printing Office, 1955), p. 42.

²National Security Act of 1947 with Amendments to Include the National Security Act Amendments of 1949, Public Law 216, 81st Congress.

The Clothing and Small Stores Fund

The oldest working-capital fund, though not so classified at the time of establishment, was the Clothing and Small Stores Fund established by the Act of June 30, 1890 (26 Stat. 189). The Clothing and Small Stores Fund was used for the financing of inventories of uniforms, clothing, and small stores used by military personnel of the Navy. Such inventories were either sold to military personnel, or issued with a charge to an appropriation. The cash received or appropriation charged was the means of reimbursing the fund, thereby maintaining its integrity. The Clothing and Small Stores Fund was an efficient instrument and continued in existence to December 30, 1950 at which time it was merged with and became a part of the Navy Stock Fund.¹

The Naval Stock Fund 1893-1949

Period 1893-1921

The Naval Stock Fund in existence in 1949 was used to finance the procurement of stocks of common supply items in various categories to be more fully described later. These stocks when issued to an ultimate consumer in the Navy were in effect sold to a customer whose bank account (appropriation) was charged thereby providing reimbursement to and a means of maintaining the integrity of the fund. The Naval Stock Fund had its genesis in an act of Congress dated March 3, 1893² which provided for a Naval Supply Fund of \$200,000 as a permanent revolving fund. The fund represented the sum and total of the annual appropriations made to the eight bureaus of the Navy Department at the time, and was to be used for the purchase of ordinary commercial supplies. The integrity of the fund

¹John W. Hempstead, A Study of the Navy Stock Fund 1893-1952, (Washington: The American University, 1953), p. 55.

²Ibid., p. 19.

was to be maintained through reimbursement from the appropriate Naval appropriation whenever the supplies purchased were issued for use.

The Naval Supply Fund proved itself during the Spanish-American War. Its scope of operations were reflected in its growth of capital from \$200,000 in 1893 to \$2,700,000 in 1902.¹ By 1910 the size of the fund including its capitalized inventories reached \$13,000,000.² In 1911 (36 Stat. 1279) the "permanent Naval Supply Fund" was abolished and the fund became organized as an "annual" revolving fund under the General Account of Advances.³ In this process, a supply management system was set up based on consolidated stocks for all ultimate users vice a system involving full separation of bureau stocks throughout the pipeline of supply.

From 1911 to 1921 only one piece of legislation was passed which had a significant bearing on the stock fund. Reference is made here to an Act of 30 June 1914 which provided that the appraised value of all stores, equipage, and supplies turned in from ships, and ships equipage turned in by yards or stations (except salvage) were to be credited to the current appropriation concerned. The purpose of this Act was to relieve the annual appropriations from being charged twice for the same material. The annual report of the Paymaster General of 1920 indicates that the fund was used extensively and effectively during World War I.

Period 1921-1942

In 1921 Legislation was passed returning the stock fund to the permanent type of fund as originally established in 1893. The fund was capitalized at an amount equal to the value of all stores in the Naval Supply Account on March 31, 1921, approximately \$287,000,000.⁴ The fund was, therefore, no longer directly

¹Ibid., p. 21.

²Ibid., p. 22.

³Ibid., p. 27.

⁴Ibid., p. 35.

concerned with the size of the annual appropriations of the various bureaus. The fund became the separate entity it is today except for changes in name and amount of capitalization.

Between 1921 and 1929 the value of stores carried in the Naval Supply Account had declined from approximately \$300,000,000 to approximately \$83,000,000.¹ The greater part of this decrease resulted from inventory revaluation, which came about incident to the adjustment to a peacetime economy following World War I, as well as to a gradual reduction of stock volume. The economy operations of the federal government in general during the late twenties and early thirties, including specific limitations on expenditures from the fund irrespective of available capital, hit the Naval Stock Fund with full force. Procurements were curtailed and stock levels seriously reduced. By July 1, 1933, the value of stores on hand had declined to less than \$50,000,000.² As a consequence of the reductions cited above, the minimum emergency reserve stock of many items was practically depleted necessitating frequent emergency purchases, on a hand-to-mouth basis, of common items required for ship repair or upkeep.

Beginning in 1935, a slow steady upward trend became noticeable in the position of the fund. The low inventory value of approximately \$46,000,000 in 1934 was increased to a little less than \$70,000,000 by the end of fiscal year 1937.³ Due to the requirements generated by the neutrality patrols and the declaration of a national emergency, the fund's capital was increased in 1940 and 1941 by an additional \$258,000,000, provided in several increments.

Period 1942-1949

With the advent of the United States in World War II, the Naval Stock Fund became the means of financing and permitting supply activities to have

¹Ibid., p. 38. ²Ibid., p. 40. ³Ibid., p. 41

readily available stocks of needed supplies for prosecution of the war effort. In 1942 the name of the fund was changed from the Naval Supply Account Fund to the Naval Stock Fund. Additional authorizations of capital for the fund came easy during World War II. By the end of the first fiscal year in which World War II began, the capital of the fund had grown to \$687,875.45. Nine months later, without additional appropriations, the inventory on hand amounted to approximately \$1,243,000,000. The explanation to this seeming paradox, considering the total capitalization as indicated above, lay in an actual cash deficit of less than \$200 million and unpaid bills amounting to approximately \$400 million. Additional authorization was obtained in fiscal year 1944 which placed a limit of \$2,250,000,000. on the fund.¹

As indicated above, the rapid growth of the fund plus the atmosphere of "dam the paper work - get the job done" resulted in the apparent loss of important controls upon the use of the fund. This was recognized by the Under Secretary of the Navy in 1944 when he suggested to the Chief, Bureau of Supplies and Accounts, that a committee review the situation to insure that the limitations imposed by law be properly observed. A committee was appointed, and as a result of the committee review, a senior officer of the Supply Corps was designated as Administrator of the Navy Stock Fund with prescribed responsibilities including the submission of a quarterly report to the Secretary of the Navy on the condition of the Naval Stock Fund.²

With the end of hostilities in 1945, huge reductions in inventory became possible because of the post war "roll back" and decreases in requirements for common supplies used in peacetime operations. During 1946 and 1947, Congress was able to rescind approximately \$750 million in cash from the capitalization of the fund.³ This was composed of cash unexpended when the requirements of the

¹Ibid., p. 46.

²Ibid., p. 48.

³Ibid., p. 52.

scale of World War II no longer existed and from cash realized from the disposal program, as well as from the process of reducing inventories.

CHAPTER II

AUTHORIZATION, ESTABLISHMENT, AND USE OF WORKING-CAPITAL FUNDS 1949-1955

Authority and Guidelines

Section 405, Public Law 216, 81st Congress contains the authority and guidelines for the use of working-capital funds in the present-day Navy. The major provisions of Section 405 are:

SEC. 405. (a) In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of:

- (1) financing inventories of such stores, supplies, materials, and equipment as he may designate; and
- (2) providing working capital for such industrial-type activities, and for such commercial-type activities as provide common services within or among the departments and agencies of the Department of Defense, as he may designate. . . .

(c) Such funds shall be --

- (1) charged, when appropriate, with the cost of stores, supplies, materials, and equipment procured or otherwise acquired, manufactured, repaired, issued, and consumed and of services rendered or work performed, including applicable administrative expenses; and
- (2) reimbursed from available appropriations or otherwise credited for the cost of stores, supplies, materials, or equipment furnished and of services rendered or work performed, including applicable administrative expenses.

Reports of the condition and operations of such funds shall be made annually to the President and to the Congress.

(d) The Secretary of Defense is authorized to provide capital for such working-capital funds by capitalizing inventories on hand, and with the approval of the President, by transfer, until December 31, 1954 from unexpended balances of any appropriations of the military departments not carried to the surplus fund of the Treasury; Provided, that no deficiency shall be incurred in any such appropriation as a result of any such transfer. To the extent that such methods do not, in the determination of the Secretary of Defense, provide adequate amounts of working-capital, there is hereby authorized to be appropriated, out of any moneys in the Treasury not

THE NATIONAL ACADEMY OF SCIENCES
OF THE UNITED STATES OF AMERICA

REPORT OF THE

COMMISSION ON THE ORGANIZATION OF THE NATIONAL ACADEMY OF SCIENCES

FOR THE YEAR 1915

The Commission on the Organization of the National Academy of Sciences was organized in 1912, and has since that time been engaged in a study of the problems connected with the organization of the Academy. It has held numerous public hearings, and has received many suggestions from the members of the Academy and from the public. It has also conducted extensive research into the various questions involved in the organization of the Academy. The results of its study are set forth in this report.

1. THE COMMISSION

The Commission was organized in 1912, and has since that time been engaged in a study of the problems connected with the organization of the Academy. It has held numerous public hearings, and has received many suggestions from the members of the Academy and from the public. It has also conducted extensive research into the various questions involved in the organization of the Academy. The results of its study are set forth in this report.

2. THE PROBLEMS

The Commission has found that the organization of the Academy is a complex problem, involving many different factors. It has identified several key areas of concern, including the size of the Academy, the methods of selecting members, the responsibilities of the members, and the financial support of the Academy. It has also identified several potential solutions to these problems, and has recommended that the Academy take certain steps to improve its organization.

appropriated for other purposes, such sums as may be necessary to provide adequate working capital.

(e) Subject to the authority and direction of the Secretary of Defense, the Secretaries of the military departments shall allocate responsibility within their respective military departments for the execution of the functions which each military department is authorized by law to perform in such a manner as to effect the most economical and efficient organization and operation of the activities and use of inventories for which working-capital funds are authorized by this section. . . .

(g) The Secretary of Defense is authorized to issue regulations to govern the operation of activities and use of inventories authorized . . .

(h) The appraised value of all stores, supplies, materials, and equipment returned to such working-capital funds from any department, activity, or agency, may be charged to the working-capital funds concerned and the proceeds thereof shall be credited to the current appropriations concerned; the amounts so credited shall be available for expenditures for the same purposes as the appropriations credited: Provided, That the provisions of this subsection shall not permit credits to appropriations as the result of capitalization of inventories authorized by subsection (d) of this section.¹

It is considered desirable to mention, by way of information and clarification, two funds which, though similar to working-capital funds, are nevertheless not so classified, and must therefore not be confused with working-capital funds. The funds referred to are the Naval Working Fund and the Navy Management Fund. The Naval Working Fund is a revolving fund established by the Act of May 28, 1924 with the purpose of providing a single permanent revolving fund for financing all work not chargeable to some existing Naval appropriation, such as work for other government departments, foreign governments, and special depositors (armed forces sponsored activities and private parties).² The Navy Management Fund is a fund established within the general fund on an annual basis. It was authorized by Public Law 216, with a capital of \$1,000,000 and is used to finance and account for the procurement of services, equipment, and supplies not suitable for procurement and financing by the Navy Stock Fund. Its

¹Public Law 216, 81st Congress, approved August 10, 1949, Section 405.

²Office of the Navy Comptroller, Navy Comptroller Manual, NavExos P-1000, Vol.II, par. 022084-2.

use is restricted to programs which cannot be financed readily by an individual appropriation or by joint action under one or more appropriations.¹

The working-capital funds in use in the Navy today as a result of Public Law 216 are:

- The Navy Stock Fund
- The Navy Industrial Fund
- The Marine Corps Stock Fund

As indicated in Chapter I, only the Navy Stock Fund was authorized by prior legislation and in use prior to 1949. It is the purpose of this Chapter to cover the significant aspects in the establishment and operation of the above listed working-capital funds.

The Navy Stock Fund

Under the authority granted by Public Law 216, 81st Congress, the Secretary of Defense created the Navy Stock Fund. The cash and inventory balances of the Naval Stock Fund as of 31 October 1949 were transferred to the newly established fund, and for all practical purposes, the fund continued in business under a new name.

In brief, the Navy Stock Fund operates as follows:

With the credit of permanently appropriated capital, common items of supply are purchased and distributed through the established channels of supply to Naval users. Upon withdrawal of items from inventory for use, the appropriations granted for "user" functions are charged and the cash capital of the Stock Fund reimbursed. This generates new credit for procurement of material to be placed in inventory for another cycle of distribution and withdrawal. The principle is exactly that of any commercial merchandising enterprise, large or small, excepting that there is no sales promotion and no policy of profit from operations. The basic motivation of the Navy Stock Fund is service of supply, to provide the right material at the right place in the right quantity at the right time, in order that naval operations may be conducted with maximum effectiveness of material support, at a minimum expense.²

The Chief, Bureau of Supplies and Accounts, under the direction of the

¹Ibid., par. 022084-3.

²Bureau of Supplies and Accounts, Monthly Newsletter, (Washington: Government Printing Office, May 1952), p. 5.

Secretary of the Navy, is designated in the charter approved by the Secretary of Defense to administer and manage the Navy Stock Fund. The authority of the Chief, BuSanda is delegated to several senior officers (for the most part Supply Corps Officers), designated as inventory or project managers for various segments of the fund. The Director, Stock Finance Division, through the Assistant Chief of BuSanda for Supply Management, provides the necessary central staff direction to the inventory managers as well as to the Naval Service in general, for proper management of the fund. The inventory managers are Commanding Officers of activities known as Supply Demand Control Points. These activities provide central business management coordination for particular commodity areas of naval material. The management of each Supply Demand Control Point specializes in related commodity lines which in commercial practice would frequently be the basis of a complete business organization. In the category of material assigned, each Supply Demand Control Point is responsible for requirements determination, procurement, inventory control, distribution and redistribution, and other related supply functions on a Navy-wide basis.

The home offices of most of the SDCPs are physically removed from Washington to provide decentralization in case of enemy attack and in order that several may be located in appropriate industrial areas. In FY 1955 there were ten (10) SDCPs managing material financed by the Navy Stock Fund.

Guidelines for Inventory Stocking and Pricing

On 1 February 1954, the Department of Defense Directive Number 7420.1, containing formalized policy guidance on stock fund operations, was published. The following salient features among others were covered: purpose, management responsibility, charter requirements, stocking policy, pricing policy, budgets and budgetary controls, etc. These regulations are thorough in nature, and the sections dealing with charter requirements, stock determinations, and pricing

policy are especially significant. With respect to inventories that are authorized, the following information is contained in the charter:

IV. INVENTORIES. All materials procured and/or stored in the Navy Supply System for issue for maintenance and operating purposes are authorized to be carried in the Navy Stock Fund. Normally, this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.¹

With respect to pricing policy, the Regulations Governing Stock Fund Operations provide:

- (1) Each item financed under a stock fund shall have a single standard price which shall be used for both inventory accounting (including the determination of losses, gains, or adjustments) and for effecting reimbursements for sale or issue.
- (2) Standard prices shall be reviewed whenever necessary but at least annually with revisions to price lists issued as frequently as required by sound business practice.
- (3) The standard price of each item shall include the following elements:
 - a. The current market or production cost of the item at the time the price is established.
 - b. The transportation cost for the item from manufacturer or contractor to the first point of destination within the Stock Fund supply system.
 - c. A surcharge to compensate the Stock Fund for all foreseeable net losses and authorized expenses relating to such items.
- (4) For pricing purposes, an item in less than new condition, or its equivalent, shall not be considered as identical to the same item when new and shall be priced at less than the new item.
- (5) The expense of procurement, warehousing, redistribution, repacking and handling, or any other function of supply administration pertaining to a stock fund item will not be financed from the stock fund or included in the standard price of the item but will be charged to appropriations made specifically therefor. (This may be subject to minor exceptions, as specifically authorized.)²

The above quoted detailed guidelines were by and large in agreement with Navy practice prior to the establishment of the Navy Stock Fund in 1949 with the

¹"Charter for the Navy Stock Fund," Department of Defense and Department of the Navy, June 1955.

²"Regulations Governing Stock Fund Operations," Department of Defense, February 1954, pp. 9-10.

following exceptions: The inclusion for pricing purposes of transportation costs to first point of destination in the supply system, and the consideration of the current market or production cost in establishing standard prices. Under the provision of previous statute, standard prices were based on returning to the fund only the amount of money spent in procurement of the item sold.

Management Techniques and Practices

The management of the Navy Stock Fund is considered to have been most aggressive from 1949 to 1955. The record indicates a great deal of activity and effort devoted to purifying the inventories by capitalizing common items of supply carried in the Appropriation Purchases Account, disposal of excess and obsolete items, and reductions of stock levels principally by reduction in procurements or elimination of items found to have little or no usage.

The introduction of improved management techniques during this period were noteworthy. The administration of the fund was reorganized along functional lines and position descriptions for a more business like controlling staff organization were written and approved. Another improvement, long needed, was the establishment of a program system to control investment in Navy Stock Account inventories. In this process funds for each category of material carried in the Navy Stock Account are allocated to the appropriate inventory project manager. Under each inventory category, annual projects are established by the Bureau of Supplies and Accounts.

Another major improvement introduced was the establishment of a cognizance system for the reporting of inventory investment and transactions (in terms of money) by material management groupings. The tool by which this is accomplished is the periodical submission by inventory holding activities of Financial Inventory Control Reports. These reports provide a breakdown of the Navy Stock Fund inventories (including receipts and expenditures) by material

cognizance (general stores, common electronics, etc.), class and fractionation code. Fractionation of inventories is a process involving the assignment of a fraction code to each supply item. The fraction code identifies the supply item system-wise as fast moving, slow moving, medium moving, insurance, terminal, etc. The tying together of financial inventory control reports with quarterly stock status reports--quantitative receipt, expenditure, and requirements information--enables the inventory manager to perform the basic assigned task of providing Navy-wide supply support through effective financial management and inventory control techniques. These same techniques and tools are utilized in the supply management of appropriation purchases account inventories--those procured by an annual appropriation for issue without reimbursement for a specific technical use; i.e., aviation spare parts, ordnance spare parts, etc.--although the points of emphasis are different and the results obtainable less favorable due to the inherent advantages of the revolving fund procedure.

Further Developments in Chronological Order

At the time of approval of Public Law 216 in 1949, the total capital of the fund approximated \$1,275 million composed of approximately \$885 million in inventory and \$390 million in cash. In December 1950 the merger of the Clothing and Small Stores Fund with the Navy Stock Fund was consummated. The value of the stores inventory involved was approximately \$180 million.

The effect of the Korean situation on the Navy Stock Fund during the first full year following had been as follows:

On 31 December 1950, the value of material carried in the Navy Stock Account was \$786 million. This represented a 10% decrease of the inventory value on hand on 31 December 1949. After the outbreak of the Korean conflict the Navy Stock Account was drawn down by the demand for increased material to support expanding naval forces. During the first six months of the conflict in Korea there was a 17% decrease in inventories with issues during the same period increasing 18% over normal. To meet the requirements of support of the increasing Fleet the procurement of additional material was accelerated

to a point consistent with availability of capital and expected reimbursement to the Navy Stock Fund. However, the demand was such that additional capital was needed to cover the expansion experienced and expected.¹

The major significance of the first year of the Korean police action, in so far as the Navy Stock Fund is concerned, is that the Fund again materially contributed to the ability of the Navy to meet a national emergency with little lost time at sea. At the same time it pointed up the fact that ability to provide effective support for a larger conflict was doubtful without an increase in the material readiness position of the fund.

During fiscal year 1951 an additional \$175 million in capital was provided from appropriations of Congress or transfer from unexpended balances of Navy and Marine Corps appropriations. During the fiscal year 1952 the sum of \$450 million was credited to the Navy Stock Fund as a result of the 1952 appropriations act. The following table indicates the capitalization and distribution of assets on an annual basis.

TABLE 1
NAVY STOCK FUND
COMPARATIVE STATEMENT OF ASSETS 1951 to 1955*
(In Millions)

	30 June 1951	30 June 1952	30 June 1953	30 June 1954	30 June 1955
CASH	322	530	526	380	737
Accts. Rec.	22	39	46	47	52
Inventories	1106	1556	1809	1767	1593
Total	1450	2125	2381	2194	2382
Add. Capital appropriated by Congress	175	450	258	(250)	(200) (429)** 400***

*Sources: Bureau of Supplies and Accounts. "Annual Reports of the Navy Stock Fund." 1951, 1952, 1953, 1954, 1955.

**Public Law 157--85th Congress approved July 1955.

***Made available under authority P. L. 216 for expansion of fund to include technical material carried in appropriations purchases account.

¹"Summary of Developments in the Administration of the Navy Stock Fund During Fiscal Year 1951," Bureau of Supplies and Accounts, Navy Department.

For a full description of the various methods used in the preparation of the various types of paper, see the following pages.

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TABLE I ANALYSIS OF THE VARIOUS TYPES OF PAPER					
TYPE OF PAPER	ANALYSIS	ANALYSIS	ANALYSIS	ANALYSIS	ANALYSIS
1. WHITE PAPER	100.00	100.00	100.00	100.00	100.00
2. YELLOW PAPER	100.00	100.00	100.00	100.00	100.00
3. RED PAPER	100.00	100.00	100.00	100.00	100.00
4. BLUE PAPER	100.00	100.00	100.00	100.00	100.00
5. GREEN PAPER	100.00	100.00	100.00	100.00	100.00
6. BROWN PAPER	100.00	100.00	100.00	100.00	100.00
7. BLACK PAPER	100.00	100.00	100.00	100.00	100.00
8. PINK PAPER	100.00	100.00	100.00	100.00	100.00
9. PURPLE PAPER	100.00	100.00	100.00	100.00	100.00
10. GREY PAPER	100.00	100.00	100.00	100.00	100.00

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The following data summarizes the value of inventories carried in the Navy Stock Fund as of the dates indicated:

TABLE 2
NAVY STOCK FUND
INVENTORY BALANCES (IN MILLIONS)*

Material Category	30 June 1951	30 June 1952	30 June 1953	30 June 1954	30 June 1955
General Stores	462	849	722	579	568
Veh. Repair Parts	44	62	74	56	44
Spec. Electrical					
Fittings & Fixtures	17	26	28	19	37
Clothing	319	396	436	398	345
Ship's Store & Commissary Store	29	27	31	31	28
Medical & Dental	0	97**	121	110	104
Blood Plasma	0	0	36**	21	24
Subsistence Stores	112	162	121	112	69
Fuels & Lubricants	112	104	120	146	149
Common Electronic	0	0	105**	140	133
Other (in process, disposal, etc.)	11	33	15	155	85
Ship's Parts	0	0	0	0	7**
TOTAL	\$1106	1556	1809	1767	1593

*Sources: Bureau of Supplies and Accounts. "Annual Reports of the Navy Stock Fund." 1951, 1952, 1953, 1954, 1955.

**Indicates complete category capitalized into Navy Stock Fund.

A close examination of Table 2 reveals the large commodity areas brought under the fund during the periods indicated: medical and dental stores valued at \$97 million in FY 1952, blood plasma valued at \$36 million and common electronics valued at \$105 million in FY 1953, and a small amount of ship's parts, \$7 million in 1955. The reductions in inventories as reflected in the 1955 statistics, despite additional capitalizations and refinements, resulted from an aggressive application of the management tools heretofore discussed. In each of the fiscal years 1953, 1954, and 1955, the issues (sales) were substantially greater than purchases (expenditures) of material.¹ During FY 1955 purchase contracts entered into were \$220 million less than Navy Stock Account materials sold to military customers.

¹Bureau of Supplies and Accounts, "1957 Budget Navy Stock Fund," p. 4.

The above information serves to point up one of the major advantages of working-capital funds; namely, the attainment of responsible financial administration simultaneous with the primary objective of providing adequate and timely supply support. The most recent example of attainment of the advantages referred to above is the capitalization into the Navy Stock Fund of all general purpose forms and publications which had previously been printed as a charge to the appropriation "Service-wide Operations, Navy" and distributed by a special distribution system. Effective 1 November 1955, the inventory was capitalized. Effective 1 July 1956 the distributive functions performed by the special Navy Central Publication Distribution System will be transferred to and funded by the Navy Supply System.¹

The Marine Corps Stock Fund

The Marine Corps Stock Fund operates under the same statutory authority and Department of Defense Regulations governing the Navy Stock Fund. It therefore is not considered necessary to repeat similar detailed information heretofore presented in connection with overall guidelines for stock fund operations.

The Marine Corps Stock Fund began operations on 1 July 1953 with the approval of its Charter by the Assistant Secretary of Defense (Comptroller). The initial capitalization was \$316 million² comprised of \$276 million in inventories involving 34,000 line items, and \$40 million in cash. During FY 1954, 13,000³ additional items valued at \$40 million were capitalized into the fund. By the end of FY 1954, the capital of the fund had been increased to \$421 million. By November 1954, a total of approximately 90,000⁴ items had been

¹NavCompt Instruction 7100.30, Office of the Comptroller of the Navy, September 1955.

²F. S. Wood, "The Marine Corps Stock Fund" (Unpublished MBA thesis, School of Government, George Washington University, 1955), p. 26.

³Ibid., p. 26.

⁴Ibid., p. 26.

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brought under the fund which exhausted the Marine supply items meeting the criteria of stock fund financing. Thus, the Marine Corps accomplished the transfer of their common supply stocks to a revolving stock fund in a very short time, thereby receiving praise from the Preparedness Subcommittee No. 3 of the U. S. Senate:

Similarly, we should like to commend the Marine Corps for its remarkable success in establishing the Corps' stock fund for the control of common-use items in the space of a few short months. Their dynamic, forceful work should be regarded as a standard for the other services to attain.¹

In a speech delivered to the Navy graduate class in Controllershship at George Washington University on 9 December 1955, Major General Shoupe, the Marine Corps Fiscal Director (Comptroller), expressed unqualified enthusiasm for the Marine Corps Stock Fund on the basis of economics effected in the area of consumption budgeting.

The Navy Industrial Fund

Definition, Purpose, and Scope

The Navy Industrial Fund was established by Secretary of Defense directive pursuant to Public Law 216. The definition, purpose, scope, and maintenance of the fund is reflected in the following extraction from the Navy Comptroller Manual:

c. Navy Industrial Fund

(1) Type of Fund. The Navy Industrial Fund is a revolving fund established in accordance with the requirements of the Secretary of Defense. The fund consists of cash transferred from unexpended balances of military appropriations, subject to the approval of the President, plus accounts receivable; stores of supplies, materials, and work in process; finished goods; and all other current assets pertaining to or acquired in the operations of the activities financed under the Navy Industrial Fund; subject to all liabilities assumed in connection with the establishment of such operations under the fund.

¹U. S. Senate, Implementation of Title IV, National Security Act of 1947, As Amended, Interim Report of the Preparedness Subcommittee No. 3 of the Committee on Armed Services (Washington: Government Printing Office, 1954), p. 11.

(2) Purpose and Scope. The Navy Industrial Fund finances the operations of all industrial-type (commercial-type) activities approved by the Secretary of Defense as specific projects under the fund.

This method of financing is intended to:

1. provide a more effective means for controlling costs;
2. establish a flexible means for financing, budgeting, and accounting;
3. encourage the creation of the buyer-seller relationship through the concept of inter orders between agencies of the same department;
4. place budgeting and accounting on a more commercial basis;
5. provide a structure which will enhance the development of a performance-type budget;
6. encourage cross-servicing between military departments.

(3) How Maintained. The Navy Industrial Fund is charged and credited with the following:

Charges

1. civilian labor;
2. materials purchased from commercial vendors or acquired from the Navy Stock Account and Appropriation Purchases Account;
3. travel by civilian or military personnel;
4. transportation of material from procurement source, when charge is made directly to the Navy Industrial Fund;
5. rent when privately owned premises are occupied;
6. cost of utilities purchased;
7. cost of services furnished by other naval activities and commercial sources;
8. reduction of cash allocations.

Credits

1. initial allocation of funds from the Navy Industrial Fund approved by the Bureau of the Budget;
2. proceeds from sale of products or services under project order or allotment authority from the military departments, or direct orders from other government departments and private parties;
3. proceeds from sale of waste, scrap, mill ends, and other by-products, and proceeds from sale of surplus or salvage property acquired by Navy Industrial Fund;
4. cash sales of property acquired by Navy Industrial Fund (including sales to other government departments and foreign governments);
5. collections from carriers for loss or damage in transit to property acquired by Navy Industrial Fund.

When work is performed for agencies outside the Department of Defense, and the amounts received include such statistical costs as military pay, depreciation, and government contributions to the Civil Service Retirement Fund, the portion of the amounts representing such statistical costs will be credited to Miscellaneous Receipts and will not augment the working-capital fund.¹

¹Office of the Navy Comptroller, Navy Comptroller Manual, NavExos P-1000, Vol. II, par. 022084-1c.

Establishment and Operation of the Navy Industrial Fund

On 13 July 1950, the Secretary of Defense published regulations covering industrial funds operations which provided detailed guidance on such items as: activity charters, assets and liabilities, orders for work, reimbursements, cost accounting methods, etc. A few of the more significant detailed procedures were:

1. Each activity placed under the industrial fund operation is required to have a charter approved by the Secretary of Defense. The charter specifies the necessary capital and ground rules for operations.
2. Each type of establishment is required to have a cost accounting system "custom built" for its operation, embracing accrual accounting and double entry bookkeeping procedures.
3. Any establishment operated under an industrial fund shall include in its costs of operations only costs which are applicable either directly or indirectly to productive work.
4. In general, real estate, general station equipment, and other plant property shall not be considered to be held for the account of the industrial fund.
5. Statistical costs involving such items as military pay, depreciation, and bureau furnished equipment and spare parts in the Appropriation Purchases Account are normally not considered in arriving at reimbursement costs, unless other than Department of Defense customers are involved.

Most industrial and commercial-type field activities of the Naval establishment produce goods and services on orders received from customers and, in addition, act as agents of bureaus and offices in procuring goods and services which are not related to the productive work of the activity. Procurement of goods and services and expenditures for direct and indirect labor incident to the productive work or in support of the productive effort of an activity operating under the Navy industrial fund are financed through the fund. Generally, procurements of goods and services which are unrelated to the productive work of the installation are financed by the appropriation cited on the enabling allotment.

Due to the non-availability of sufficient well-trained personnel as well as the necessity for an individual activity type cost accounting system, conversion of activities to the Navy Industrial Fund was relatively slow. Despite the above limitations, the Navy had a distinct advantage over the Army and the Air Force by reason of considerable previous experience with revolving stock funds and a cost accounting system. The systems for industrial funds are developed jointly by the particular activity for whom working capital is being provided, the Management bureau, and the Office of the Navy Comptroller. The actual application of working-capital funds is a two phase operation; the first phase is the establishment of an integrated operational unit with its own accounting and reporting system, and the second phase is the refinement and development to a point where management is receiving the type of information which enables it to do a better job.

Extent and Evaluation Navy Industrial Fund to Date

Table 3 contains a detailed listing of Navy activities operating under the Navy Industrial Fund as of December 1955 with some amplifying data.

TABLE 3
NAVY INDUSTRIAL FUND ACTIVITIES
(As of 1 Dec. 1955)

Program and Activity	Management	Cut-Over Date	Cash Allocation (Millions)	Annual Volume (Millions)
<u>Shipyards</u>				
Philadelphia	BuShips	14 April 1952	\$16	\$68
Charleston	do	1 July 1953	10	47
Norfolk	do	1 July 1953	17	91
Portsmouth	do	1 April 1954	8.5	43
Boston	do	1 April 1954	12.5	63
New York	do	1 April 1954	21.9	115
Puget Sound	do	1 July 1954	12.5	80
Long Beach	do	1 Aug. 1954	8.3	42
Mare Island	do	1 Sept. 1954	16.5	80
San Francisco	do	1 Sept. 1954	9.2	46
Pearl Harbor	do	1 Dec. 1954	6	25
San Diego (Repair Base)	do	1 Dec. 1955	2	-
			<u>\$140</u>	<u>\$700</u>

TABLE 3-Continued

Program and Activity	Management	Cut-Over Date	Cash Allocation (Millions)	Annual Volume (Millions)
<u>Ordnance Plants</u>				
York	BuOrd	1 Aug. 1951	\$ 6	\$ 7
Forest Park	do	1 Jan. 1953	8.5	18
Indian Head	do	1 Oct. 1953	7	26
Naval Gun Factory	do	1 July 1954	22	71
Indianapolis	do	1 July 1955	7.4	28
			<hr/> \$50.9	<hr/> \$150
<u>Printing Plants</u>				
Defense Printing Service	EXOS	1 Nov. 1949	\$.3	\$ 5.5
Navy Printing Plants	do		.75	4.5
Philadelphia	do	1 Sept. 1951		
Norfolk	do	1 Sept. 1951		
New Orleans	do	1 Nov. 1951		
Pensacola	do	1 Sept. 1952		
Guantanamo	do	1 Oct. 1952		
Charleston	do	1 Nov. 1952		
New York	do	1 Dec. 1952		
Wash. (FRNC)	do	1 Dec. 1952		
Boston	do	1 Jan. 1953		
Great Lakes	do	1 Feb. 1953		
Bremerton	do	1 Mar. 1953		
Kodiak	do	1 Mar. 1953		
San Diego	do	1 April 1953		
Mare Island	do	1 May 1953		
Pearl Harbor	do	1 June 1953		
Guam	do	1 July 1953		
			<hr/> \$1.05	<hr/> \$10
<u>Research & Development</u>				
Naval Research Lab. Ana.	ONR	1 Jan. 1953	\$5.5	\$25
Naval Ord. Lab. Corona	BuOrd	27 Sept. 1953	.6	3.5
			<hr/> \$6.1	<hr/> \$28.5
<u>Other Programs</u>				
Marine Clothing and Equip.				
Factory, Philadelphia	MarCorps	1 July 1953	\$.8214	\$ 4.1
Military Sea Transporta- tion Service	CNO	1 July 1951	71	425
All Navy Industrial Fund Activities			<hr/> \$268.3	<hr/> \$1,317.6

*Source: Memorandum Information Sheet obtained from the Office of the Navy Comptroller.

There is little formal evidence available to indicate positively the exact degree that industrial funds are accomplishing the purposes for which established or the dollar savings effected. In the early part of 1954 the Preparedness Subcommittee of the U. S. Senate made the following observations with respect to the results obtained to date and the need for more rapid implementation of Title IV of the National Security Act Amendments of 1949:

The operations which have adopted the industrial-fund system have experienced considerable success, a result which should demand the extension of the system in each of the services. . . .

There was unanimity in the conviction that Title IV not only has resulted in considerable savings since its enactment over 4 years ago, but also that the potential savings which full utilization of the title could effect has not yet been approached. The installation of an industrial fund to finance the MSTs has resulted in tremendous savings to the American taxpayers. . . .¹

The Secretary of the Navy in an address before the American Society of Newspaper Editors held in Washington, D. C. in 1954 said:

The Navy is making encouraging progress in the application of the working-capital principle to its industrial activities. Under the working-capital concept the plant manager is given a revolving fund with which to finance all costs incident to production. These costs are then charged to the work in process, and the finished goods are then "sold" to the Navy or to another service at a unit cost calculated to recover their cost to the working-capital fund. The results have been very encouraging. Wherever the plan has been tried, cost control has immediately improved, cost data are more complete and accurate, and plant managers have become actively and acutely cost conscious. . . .

. . . This will mean that each service will require fewer tax dollars for the accomplishment of the mission.²

The minutes of the Conference of Shipyard Commanders held in Washington in September 1955 contain many general comments favorable to the Industrial Fund program. In these same minutes, the BuShips Comptroller advised of two drawbacks still prevailing under NIF that require improvements. These areas are:

¹U. S. Senate, op. cit., p. 10, 21.

²Earl J. Schmitt, "The Navy Industrial Fund" (Unpublished MBA Thesis, School of Government, George Washington University, May 1954), p. 10.

(a) department heads at field installations are still estimating for contingencies (a kind of padding) as under the allotment and appropriation system, and
(b) APA "free material" used tends to distort the cost picture. However, the last named area is scheduled for elimination in FY 1957 when such materials are capitalized into the Navy Stock Fund.

Considering the time involved in surveying, evaluating, and setting up a custom made system for each type of industrial fund activity, it is considered that the implementation of Section 405, Public Law 216 has gone forward with reasonable and steady progress. The cut-over dates indicated in Table 3 suggests tremendous progress in installing Industrial Fund procedures at Naval installations since the preparation in 1954 of the comments of the Senate Subcommittee quoted above. All major shipyards and ordnance installations have been cut over to the Navy Industrial Fund procedures. The major remaining area of industrial-type activities yet to be considered is the Overhaul and Repair operations at the Class A Naval Air Stations. The projections in this area will be covered in the next chapter.

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CHAPTER III

FUTURE UTILIZATION OF WORKING-CAPITAL FUNDS IN THE NAVY

Criticisms and Counterattack

Despite a congressional statute requiring the utilization of working-capital funds, as well as congressional committee endorsement previously referred to in Chapter II, there have been rumblings of dissatisfaction from various investigative groups, particularly as to the soundness of the working-fund device as a basic system of financial administration. The Advisory Committee on Fiscal Organization and Procedures was commissioned by the Secretary of Defense in 1954 to study the problem in the Department of Defense, and was composed of national business leaders plus the Comptroller of the Department of Defense. The attitudes and feelings of this Committee, not specifically concurred in by the Comptroller, Department of Defense, are reflected in the following comments:

The Committee recommends that revolving funds be used in appropriate instances. . . .

In those circumstances where managerial type accounting can be readily accomplished by appropriate accounting methods within the appropriation structure, need for the use of revolving funds should be determined by other practical considerations such as a selection of the method under which the most rapid progress can be made.

Although some progress has been accomplished through the use of working-capital funds in specialized areas, the primary consideration should be improved financial management and the recognition of the need for adequate financial-inventory accounting and industrial or commercial-type accounting, where appropriate. Similarly, management funds should be utilized where that device will result in better accounting and management for joint efforts. However, the use of a revolving fund as a device in lieu of an integrated accounting system or to overcome organizational complexities or because of the unwillingness otherwise to delegate authority commensurate with assignments of responsibility is highly questionable and under these

circumstances the situation can best be remedied by attacking the basic problems involved.¹

Close scrutiny of the above comments indicates lip service support of the use of working-capital funds on the one hand and a stinging criticism of their use on the other.

The task force on Budgeting and Accounting of the 1955 Hoover Commission while supporting the use of working-capital funds does sound a theme of caution as reflected in the following comments:

Revolving funds are particularly useful in those situations in which an activity renders service to other outside activities, the extent of which cannot be predicted in advance.

These advantages have been demonstrated in the inventory stock funds operated in the Department of Defense.

The principal disadvantages of these revolving funds are that they minimize congressional control of agency operations and that their widespread use can result in too many pockets of funds which become cumbersome from the standpoint of efficient administration.

Our task force believes that revolving funds should be employed only in situations where they provide greater economy and efficiency than do direct appropriations.

Recommendation No. 15.

That after appropriate accrual and cost accounting techniques have been established by the government agencies, the creation or continuation of revolving funds should be reviewed to determine whether they will add to efficient management.²

The comments of the 1955 Hoover Commission (the whole committee) contained the following:

...Revolving funds, buttressed by accounting systems which disclose full costs of operations, contribute to improved management control.

When the capital in a stock fund exceeds the amount required to support the required inventory, the excess is readily highlighted, and Congress and The Secretary of Defense can take prompt action to reduce the size of the fund....

¹Advisory Committee on Fiscal Organization and Procedures, "Financial Management in the Department of Defense," (Washington: Department of Defense, October 1954).

²Commission on Organization of the Executive Branch of the Government, Budget and Accounting, (Washington: Government Printing Office, June 1955), pp. 38-40.

The Committee, therefore, endorses the installation of proper accounting, costing, and reporting systems throughout the department and the continued and extended use of working capital and stock funds where they are suitable....¹

An examination of the comments of the 1955 Hoover Commission as contained in the reports of the task force and the whole committee reveals greater support for use of working-capital funds by the whole committee.

In November 1954, the Comptroller of the Department of Defense promulgated a report in draft form entitled, "Financial Management in the Department of Defense." The preface indicated that the report was a restatement of the basic principles for financial management in the Department of Defense. It outlined the objectives generally agreed upon by those concerned and provided workable methods of achieving the objectives. The above cited report is considered by some lay observers to be the rebuttal of the Assistant Secretary of Defense, Comptroller, to the previously quoted criticisms of the Advisory Committee on Fiscal Organizations and Procedures. The major points concerning working-capital funds contained in the draft report are set forth below:

Materiel. All major items of materiel should continue to be financed from the appropriations for procurement and production. However, it is recommended that all material of a consumable nature be financed under revolving funds, and the cost of consumption thereof charged to the respective appropriations employed to finance the various types of operations for which such materiel is employed.²

...In particular, it is necessary that operating budgets in the areas of maintenance and operations and research and development shall be based upon the cost of consumption of such materiel. Of course, it is necessary also to provide for central financial control of procurement and stock levels of such consumable materiel, including requirements for mobilization reserves as well as current consumption. The use of revolving funds will facilitate the central financial control and accounting for procurement and inventories,

¹Commission on Organization of the Executive Branch of the Government, Business Organization of the Department of Defense, (Washington: Government Printing Office, June 1955), pp. 78-79.

²Department of Defense Comptroller, "Financial Management in the Department of Defense," November 1954, p. 36.

The Committee, however, is not in a position to make any recommendation on this point, as it is not possible to make any recommendation on this point.

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and the decentralized control and accounting for cost of consumption of operating activities, under the respective appropriations which are chargeable for the cost of the materiel consumed.¹

Revolving Funds. Working-capital funds should be utilized to finance the production of goods or services by industrial and service activities (industrial funds) and the procurement and inventories of all consumable materiel (stock funds). The extension of their use should be expedited.²

With respect to operating budgets for working-capital funds, the following comments apply:

Stock Funds. Annual operating budgets for stock funds must be provided for purposes of obtaining approval of the program for procurement and maintenance of stock levels, and providing related fund resources. However, it is necessary from a management standpoint to revise and extend operating budgets from month to month for each category to cover a period in advance equal to the maximum procurement lead-time without respect to the end of the current fiscal year.³

In the above connection, it is recognized that stock funds, if internal controls are effective, should be exempt from the apportionment of obligational authority.

It is recommended that authority be sought to (a) broaden the character of the assets to be financed or capitalized (in industrial funds); and (b) broaden the nature of costs financed under industrial funds and thus reimburseable by charge to the ordering agencies for work or services.⁴

...It is recommended that it be considered normal annual procedure to justify capital requirements for working-capital funds in annual budgets, and to either request additional capital or propose recissions, as may be indicated to be appropriate.⁵

While the above quoted portions from the draft report, "Financial Management in the Department of Defense," have never been promulgated as a binding manual of operations, it is considered important because it expresses the philosophy of those in the Department of Defense who furnish guidance to and climate for the efforts of the responsible officials in the Department of the Navy. Further, the projected actions of the Department of the Navy conform to

¹Ibid., p. 38.

²Ibid., p. 40.

³Ibid., p. 65.

⁴Ibid., p. 91.

⁵Ibid., p. 94.

the general objectives and principles expressed in the draft report, and in some cases go beyond.

A Preview of Further Expansion of the Navy Industrial Fund

The following schedule indicates the present Navy program for additional conversions of activities to the Navy Industrial Fund procedures:

TABLE 4
PROJECTED CONVERSIONS TO NIF*
FY 1956 or later

<u>Activity</u>	<u>Management Bureau</u>	<u>Cash Allocation</u>	<u>Date</u>
**NOP Macon	Ordnance	7,400,000	1-1-56
***PWTC Treasure Island	Docks	8,500,000	Indef
**David Taylor Model Basin	Ships	1,903,000	1-1-56
**NAS Quonset Pt.	Aer	10,000,000	Indef
****NAD, Crane, Ind.	Ordnance	7,100,000	Indef
****NAD St. Juliens Creek	Ordnance	2,100,000	Indef
****PWC Norfolk	Docks	2,000,000	Indef
****NavRadDefLabSan Francisco	Ships	8,000,000	Indef
****Underwater Sound Lab., New London	Ships	1,100,000	Indef

*Source: Mimeographed schedule held in Office of the Navy Comptroller.

**Approved for FY 1956 by BuBud and House Appn. Committee.

***Approval pending.

****Proposed by NavCompt for FY 1956.

The one large area where a pilot installation for the type has not yet been established, but where considerable conversions are possible, involve the Overhaul and Repair activities of the Bureau of Aeronautics. The Naval Air Station, Quonset Pt. has been tentatively selected as the location of the pilot installation for Overhaul and Repair activities. Informal conversation with representatives of the Bureau of Aeronautics discloses that BuAer's approach to industrial fund financing will likely be one of deliberate thoroughness and careful evaluation prior to taking the plunge. At the present time, the Overhaul and Repair activities have only one customer (BuAer) whereas shipyards have

many customers. Although one or two research and development activities are already under the industrial fund, it is understood that representatives of both the Department of Defense and the Bureau of the Budget are not enthusiastic or convinced of the advisability of approving blanket extension of the industrial fund technique to Research and Development activities.

Further Expansion of the Navy Stock Fund

In addition to the categories of material carried in the Navy Stock Fund as indicated in Chapter II, the following additional categories are scheduled for capitalization in fiscal year 1957 providing congressional authorization is obtained. These categories and their inventory values are:¹

<u>Material Cognizance</u>	<u>Description</u>	<u>Inventory Value</u>
N	Electronics, common (additional)	\$225 million
H	Ship's Repair Parts	\$448 million
Y	Vehicular Equipment Repair Parts	\$ 10.5 million
P	Submarine Repair Parts	\$ 42.2 million
E	Photographic Material	\$ 10.1 million

The inclusion of the above categories of material in the Navy Stock Fund will increase the inventory holdings to approximately \$2064 million, and can be accomplished without additional cash authorization.

On completion of the 1957 conversion schedule, only two major types of supply stocks will be outside the stock fund; aviation supplies and spares valued at approximately \$2 billion and ordnance repair parts valued at approximately \$1,275 million. Active study and consideration are being devoted to these categories. Two considerations of paramount importance involved in these categories are: (1) the expensive nature of some large equipments and assemblies which would necessitate providing for significant additions to operating appropriations and allotments, and (2) the high obsolescence rate of

¹Bureau of Supplies and Accounts, "1957 Navy Stock Fund Budget," p. 2.

aviation material. It is understood that the Department of Defense regulations governing stock funds are being revised so that obsolescence will no longer be a criteria for excluding material from stock funds. The expensive equipments and assemblies, of small proportion itemwise, and usually of low turn-over nature and long lead time in procurement, could be categorized as a separate material cognizance for appropriation purchases account inventory control and procurement purposes. The climate within the Department of the Navy and the Department of Defense appears custom-made for the further extensions indicated above. Much will depend upon the attitude of congressional leaders; and for the immediate future, a favorable climate is predicted.

CHAPTER IV

SUMMARY AND CONCLUSIONS

The subject developed in this paper has pointed up some definite observations of fact, opinion, and recommendation with respect to working-capital funds in the Navy. The more important of the observations referred to are:

(1) The Navy has had considerable experience with the equivalent of working-capital funds in the form of the Naval Supply Fund going back more than 50 years prior to the passage of Public Law 216.

(2) The history of the Navy Supply Fund has in general reflected excellent administration, the employment of good management techniques, and the provision of supply support to the fleet in a manner not possible as efficiently and economical under other types of funding and management techniques.

(3) Though the management techniques used and the benefits obtained in the operation of the Navy Stock Fund have not changed substantially as a result of Public Law 216, the rate and degree of expansion of the Navy Stock Fund did receive considerable momentum from the statute. For example, without the impetus of Public Law 216, the inclusion of certain forms and publications in the Navy Stock Fund and Navy Supply Distribution System would have been most difficult due to vested interest considerations.

(4) Results to date with revolving stock funds indicate the need for further extension to include the entire supply and repair parts picture. The Navy seems inclined to pursue this subject with vigor to successful completion

by 1959 providing congressional attitude continues favorable.

(5) Reference material available indicates that the Department of Defense is dedicated to the further extension, including refinement of management devices and procedures, of working-capital fund operations despite criticisms by the Advisory Committee on Fiscal Organization and Procedures and mild comments of caution set forth in the 1955 Hoover Commission reports.

(6) Comments of a former Secretary of the Navy and the view of representatives of the Office of the Navy Comptroller indicate unswerving support for the continued use and extension of Navy Industrial Fund operations, where applicable. At various working levels of Bureau opinion, there appears to be some lack of conviction as to the favorable results obtained or obtainable under Industrial Fund operations.

(7) The benefits derived or to be derived from Navy Industrial Fund operations do not as yet lend themselves to accurate measures of the savings involved. Hence, there is little formal evidence of concrete savings that have been accomplished to date. This is undoubtedly due in part to the lack of adequate operation time and experience to permit clear evaluation.

(8) Departmental administration by members of the House of Representatives was forcefully brought to the attention of the writer in connection with plans for extension of working-capital fund operations for FY 1956 and 1957. In this connection, plans for extension of the Navy Stock Fund operations were included in the 1957 budget upon advice of the congressional leaders of the appropriations committee, although additional cash capital is not required and although the Secretary of Defense has statutory authority to approve such extensions. Likewise certain conversions to the Navy Industrial Fund for FY 1956 were subjected to committee approval as indicated in Table 4.

(9) It is the opinion of the writer that Public Law 216 has been a most effective weapon in extending the use of better management and business techniques in the Navy. The results should become progressively obvious and measureable with the passage of time.

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